



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
LINCOLN COUNTY
SHERIFF'S SETTLEMENT - 1999 TAXES**

April 29, 2000

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
LINCOLN COUNTY
SHELBY LAKES, SHERIFF
SHERIFF'S SETTLEMENT – 1999 TAXES
April 29, 2000

On October 2, 2000, fieldwork was completed on the audit of the Lincoln County Sheriff's Settlement – 1999 Taxes. An unqualified opinion was rendered on the financial statement. No reportable conditions relating to the financial statement were disclosed.

Deposits:

The Sheriff's deposits were fully insured or collateralized as of April 29, 2000; however, deposits were unsecured by \$484,354 on the high balance date of November 12, 1999. The Sheriff had a written agreement with the depository institution.

Tax Collections:

Total 1999 taxes collected were \$4,352,720. Total taxes disbursed to taxing districts were \$4,207,228.

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable Ronald W. Gilbert, Lincoln County Judge/Executive

Honorable Shelby Lakes, Lincoln County Sheriff

Members of the Lincoln County Fiscal Court

Independent Auditor's Report

We have audited the Lincoln County Sheriff's Settlement - 1999 Taxes as of April 29, 2000. This tax settlement is the responsibility of the Lincoln County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted Government Auditing Standards and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Lincoln County Sheriff's taxes charged, credited, and paid as of April 29, 2000, in conformity with the basis of accounting described in the preceding paragraph.

Based on the results of our audit, we present comments and recommendations, included herein, which discusses the following area of noncompliance.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

To the People of Kentucky

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John P. McCarty, Secretary

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Honorable Shelby Lakes, Lincoln County Sheriff

Members of the Lincoln County Fiscal Court

In accordance with Government Auditing Standards, we have also issued a report dated October 2, 2000, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -
October 2, 2000

LINCOLN COUNTY
SHELBY LAKES, SHERIFF
SHERIFF'S SETTLEMENT - 1999 TAXES

April 29, 2000

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 411,974	\$ 730,581	\$ 1,711,605	\$ 628,579
Tangible Personal Property	33,269	47,312	124,027	109,856
Intangible Personal Property				47,893
Oil Property	1	3	6	2
Fire Protection	837			
Additional/Supplemental	640	1,162	2,655	1,043
Increased Through Erroneous Assessments	203	370	844	1,866
Current and Prior Year Franchise	98,126	173,192	382,996	
Penalties	4,263	7,644	17,646	6,565
Adjusted to Sheriff's Receipt	(136)	(673)	(564)	(156)
Gross Chargeable to Sheriff	<u>\$ 549,177</u>	<u>\$ 959,591</u>	<u>\$ 2,239,215</u>	<u>\$ 795,648</u>
<u>Credits</u>				
Discounts	\$ 5,422	\$ 9,313	\$ 22,265	\$ 9,872
Exonerations	4,490	7,983	18,235	19,719
Delinquents:				
Real Estate	10,754	19,799	44,681	16,409
Tangible Personal Property	<u>243</u>	<u>299</u>	<u>840</u>	<u>587</u>
Total Credits	<u>\$ 20,909</u>	<u>\$ 37,394</u>	<u>\$ 86,021</u>	<u>\$ 46,587</u>
Net Tax Yield	\$ 528,268	\$ 922,197	\$ 2,153,194	\$ 749,061
Less: Commissions *	<u>22,739</u>	<u>31,903</u>	<u>40,131</u>	<u>32,122</u>
Net Taxes Due	\$ 505,529	\$ 890,294	\$ 2,113,063	\$ 716,939
Taxes Paid	503,314	886,262	2,103,843	713,809
Refunds (Current and Prior Year)	<u>1,968</u>	<u>3,653</u>	<u>8,209</u>	<u>3,138</u>
Due Districts or (Refund Due Sheriff) as of Completion of Fieldwork	<u>\$ 247</u>	<u>\$ 379</u>	<u>\$ 1,011</u>	<u>\$ (8)</u>

* and ** See Page 4

LINCOLN COUNTY
SHELBY LAKES, SHERIFF
SHERIFF'S SETTLEMENT - 1999 TAXES
April 29, 2000
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,761,565
4% on	\$	220,622
1% on	\$	207,339
Various % on	\$	2,153,194

** Special Taxing Districts:

Library District	\$	63
Health District		103
Extension District		66
Ambulance District		107
Fire District		<u>40</u>
Due Districts	\$	<u><u>379</u></u>

The accompanying notes are an integral part of the financial statement.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENT

April 29, 2000

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 12, 1999, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$484,354 of public funds uninsured and unsecured.

LINCOLN COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 29, 2000
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official at year-end or as of November 12, 1999.

	<u>Bank Balance</u>
Collateralized with securities held by the county official's agent in the county official's name	\$ 1,938,706
Uncollateralized and uninsured	<u>484,354</u>
Total	<u>\$ 2,423,060</u>

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1999. Property taxes were billed to finance governmental services for the year ended June 30, 2000. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 20, 1999 through April 29, 2000.

Note 4. Interest Income

The Lincoln County Sheriff earned \$8,887 as interest income on 1999 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

COMMENT AND RECOMMENDATION

LINCOLN COUNTY
SHELBY LAKES, SHERIFF
COMMENT AND RECOMMENDATION

April 29, 2000

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On November 12, 1999, \$484,354 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

Arrangements have been made with depository institution to pledge or provide sufficient collateral which together with FDIC insurance will equal or exceed amount of public funds on deposit. It should be noted that no loss of public funds occurred.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

None

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None

PRIOR YEAR:

The Sheriff should have required the depository institution to pledge additional securities as collateral. This comment is repeated in the current year audit.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable Ronald W. Gilbert, Lincoln County Judge/Executive
Honorable Shelby Lakes, Lincoln County Sheriff
Members of the Lincoln County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Lincoln County Sheriff's Settlement - 1999 Taxes as of April 29, 2000, and have issued our report thereon dated October 2, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Lincoln County Sheriff's Settlement - 1999 Taxes as of April 29, 2000 is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lincoln County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable Ronald W. Gilbert, Lincoln County Judge/Executive
Honorable Shelby Lakes, Lincoln County Sheriff
Members of the Lincoln County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 2, 2000

